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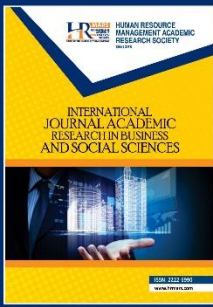
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Ethics and Financial Reporting Assurance

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Abstract

This study paper mainly focuses on the relationship of ethic and financial reporting assurance. As nowadays, the ways of reporting financial information are changing because of the nature and unavoidable technological advancements. Following the biggest scandal in accounting field such as Enron, World com, Parmalat and many more, the accounting professional bodies and other concern party are beginning to questioning the reliability of financial report that is being published by professional accountants. Hence, the ways to overcome this is by cultivate the ethical behavior among new and current professional accountants. Besides, to enhance the confidence of stakeholders, integrated financial reporting is now becoming a necessary element in financial reporting. This study also recognizes the important of good corporate governance for the better future of companies, auditors and other parties that involve in accounting fields.

Introduction

For a peaceful society, everyone must have ethics. Ethics define who we are as a human being. So what is ethics? Ethics according to Oxford dictionary (third edition) is relate to moral principles or the branch of knowledge dealing with these. In accounting field, in order to obtain shareholders', trust and confidence in financial statement, it must be presented in true and fair view. In order to get the true and fair view of financial statement, accountants must act ethically. Nowadays, there are many issues regarding ethic in preparing financial report especially individuals trying to manipulate and hide financial information. Although professional accountants had been educated since the beginning to act ethically in performing their jobs but sometimes they have the potential to act unethically due to working environments and opportunities. Some of the unethically activities in financial reporting is asset misappropriation, creative accounting, window dressing and personal trading. The importance of ethic in financial

reporting started since the Enron scandal, WorldCom, etc. due to these scandals, the stakeholders being to lose trust and confidence in the presentation of financial statements. The consequence of these scandals may affect the national growth and development badly because of loss of confidence by the investor and consumers to invest in the affected country.

First, this study paper discusses on the background of the study. Next it reviews the literature that relate to ethics in professional accountants, financial reporting assurance and the relationship between the two. Next the study paper state the findings based on all the study done. Finally end the study paper with conclusion and findings.

Background of the Study

This study focuses on corporation and the entity that are required to disclose true and fair financial report throughout the year. All public listed companies are compulsory to present financial report in each year to show the financial position. Transparency and assurance in the presentation of financial report is highly required but this goal of achieving a relevant and reliable financial report are at the brink of failure because it is closely related to financial reports that disclosing untruthful financial information. The presentation of financial report that free from bias and fraud is really in need for internal and external users to make analysis and decision for the purpose of short and long term investment. Almost of the accountants will try to hide the deficiency in their report even though all the information is provided. Consequently, accounting professional body came out with the idea of integrated report to provide assurance of reliable financial report. Naturally to provide the true assurance to stakeholders, it is a fact that the accountants itself have to act ethically.

Objective of the Study

To study the relationship between the financial report assurance and ethic in preparation of financial statements and reporting.

Literature Review

Ethics

The important of ethics is so vital in accounting profession as it is enacted in International Financial Reporting Standards (IFRS). IFRS required that accountant need to be ethics to be qualify as a professional. The accountants must be ethical in the sense that he or she have to be independence, transparent, fair, skepticism and honest (Youssef & Rachid, 2015). Following the Enron scandal, the accounting profession bodies all over the world are finding a way to overcome this problem from happening twice by establishing Professional Conduct and Ethics. Malaysian Institute of Accountants are be not exception, MIA implement By-Laws (On Professional Conduct and Ethics) with the hope that when accountants are in conflict on ethical issue, they may refer to the By-Laws. From the study done by (Mason-Jones D.R., 1981), most of the accountants in Malaysia are reluctant to adhere to the provision in the By-Laws with face with ethical dilemmas. Ignorance on the provision in By-Laws is the main factor that contributes to the unethical behaviors among professional accountants. Professional accountants in Malaysia should be aware

that stakeholders depend and put a trust on the accounting information that they produced to make decision. Hence, it is important that the quality of information they produce are up to the standard without any element of bias (Yarahmadi & Bohlooli, 2015). Yarahmadi (2015) saw that not only accountants should be qualified academically but they also need to have a high degree of ethical in performing their jobs. In fact, many of the research and study papers conduct by researcher nowadays focus on the framework of professional and ethical behavior of accountants. It is a challenge for professional body to teach and instill ethical behaviors in accountants' self. As the willingness to change and adapt is upon the individual self. But, it is not too late to cultivate ethical behaviors among future accountants in educational level (Kannaiah & Kumar, 2009). Therefore, it is advisable that the ethical standards and behaviors of accountants be at the same level and relevant as technical knowledge.

Financial reporting assurance

In light of the financial reporting that have become today, it is necessary that stakeholders not only depend on financial reporting information but also must consider the non-financial reporting of companies if stakeholders decided to make any risky decision (Ergüden, Kaya, & Sayar, 2017). In Oprisor (2015), the assurance on integrated reports are difficult to obtain because of the absence of audit regulations, the company specific traits in preparing integrated report and the performance indicator for non-financial information. Other main concern that seem to impendent the implementation of integrated report is the insufficient of time and money to audit such report. Many steps are taken by professional body to execute the integrated reports in Malaysia. Integrated report is a new report that just been introduced to today accountants to encounter the rising ethical issues in accounting profession. In one of the article by Beattie (2000), the author mentioned that the new type of information are required to be reported such as forward-looking, non-financial information and soft information to be truly assure that the board of directors are acting in the best interest of their stakeholders.

Some of the author state that every financial report should have a measurement tools to confirm about their quality of the financial reports. Their findings in here are whether their report is based on the concept of true and fair view. The financial reports also need to be timeliness. Timeliness in here means that the report needs to be done on time. It is based on IASB that must be followed by the accountants so that the report is a reliable and relevant report (Beest & Boelens, 2009).

The relationship between ethics and financial reporting assurance

When we talk about accountant, they must always follow a strict rule like must been finish their auditing before the due date and always do their work based on the concept of true and fair view concept. In this article, it is about an ethics of the accountants and their quality of their reports in Nigeria. They are a lot of things that the accountant in Nigeria must follow like the elements of audit profession so that the quality of the report is in a good shape. In this article also said that the accountant should follow a code of ethics so that the report will be based on the concept of true and fair view concepts as it also can restore the confidence of the public about the accounting profession in Nigeria. Other than that, it also said that ethics in accounting should be made a

major course in the Nigerian University so that the students know that they must behave accordingly based on good behavior and not with unholy practices that are practiced by a lot of accountants (Arowoshegbe, Uniamikogbo, & Atu, 2017).

Unethical top management such as board of directors can directly affect the financial reporting assurance, this is evident in the article by Ibrahim, Ahmad, Juhl, & Ur Rahman (2016). The corporate world is in a bind because of the poor corporate governance itself and inefficiency of the board of directors. Poor corporate governance also means unethical behavior of the board of directors. An example of poor corporate governance is adjusting the amount of revenue and expenses, window dressing, hiding any fraudulent activities and etc. The independence of the board will affect the financial reporting of the company in few aspects. The independence of the board includes the separate leadership, independent chair and proportion of independent directors on the board and nomination committee. In Malaysia Code of Corporate Governance (MCCG), it gives guidelines to the corporation board of directors on the ways to be independent and free from bias.

Norwani, Mohamad, & Tamby Chek, (2011) also underline the importance and impact of corporate governance and financial reporting issues. In Malaysia itself these problems occur, some of the companies involved with the scandals and financial issues such as Perwaja Steel and Malaysia Airlines System. The failure of corporate governance, which is associated with ethical issues, may influence the financial reporting and many more proofs have been collected as evidence in this field. The accountability of auditors is also questionable if the financial reporting consists of fraud. Therefore, financial reporting assurance not only involves the companies themselves, but also the auditors. Auditors have to ensure that they are independent and free from bias.

Findings

The issue of fraudulent financial reports can be counteracted by the involvement of an efficient audit committee. The audit committee plays an important role in gaining back the trust of the public by providing sufficient disclosure. According to (Leung & Cooper, 2003), the audit committee in each public listed company should provide three types of disclosures: the audit committee's annual report; once every 3 years, the audit committee's report in the proxy statement; and the audit committee's proxy statement, it is to identify the audit committee's responsibilities fulfillment. Hopefully with these three types of disclosures from the audit committee, it can increase the transparency and integrity of the company's operation.

The internal party in the organization that is directly involved in the good ethics and corporate governance is the board of directors (Kang, Cheng, & Gray, 2007). The issue of fraudulent financial reports exists because of the unethical behavior of its board of directors. Unethical behavior of the board of directors arises due to a conflict of interest between the board of directors and shareholders. The board of directors tends to make decisions that provide benefits to the company and ignore the interests of its shareholders. Thus, to ensure the good ethics and ethical behavior of the board of directors, it is significant to have independence among the members of the board of directors. The board of directors that have diverse backgrounds and experience will have different opinions than the board

of directors that constantly in agreement with any decisions made. Meanwhile, independence defines as the freedom to give thought without influence from other parties. Nowadays, fraud happen because lack of independence at board of directors' level. Hence, shareholders' responsibilities are to appoint and eliminate any inefficient board of directors for the well-organized company.

To overcome the problems of ethical behavior that lead to many financial collapse among accountants, it is essential to educate the future accountants, which mean current universities' students and current accountants on the importance of practicing ethical behaviors in conducting their jobs. Based on Kermis & Kermis (2013), accounting students should have strong relationship between professional ethics, personal ethics and regulations of financial reporting. The responsibility and integrity is most important aspect to deal with financial reporting. The authors also have explained the responsibility for action the person of course in workplace. Our only hope to prevent financial issue to arise, ethics and the need for teaching of ethics in accounting education is a compulsory. Fresh graduates should go further with accounting professional education. Ministry of Higher Education has issued Reassessment Report on Programme of Accounting at Malaysia's Public Universities 2006 (Hala Tuju 2) as encouragement steps. Lecturers also need to be aware of the important in teaching ethics in accounting. Due to this problem, professional and ethics values should be cultivated in all subjects especially in the Bachelor in Accounting. (Singh & Poduval, 2009).

Conclusion

After the scandalous events of Enron; World Com; Parmalat and other companies that involve in unethical behaviors lead to the collapse of the biggest and well-known companies, this given the light on the seriousness of this issue in accounting profession throughout the world. There have been abundance research and study papers regarding this issue as all parties trying to discover and solve these matters. From most of the research conducted by professional bodies and researcher of accounting, they come out with the ideas and solution that to overcome this problem from happening again. There should be initiation and exposure of ethical behavior among accountants while conducting their jobs. Besides that, audit regulation on ethical behavior should also be implemented today.

It is found that the quality assurance in audit have enhance the investors' confidence in the financial reports published by companies (Onuora & T. O., 2015). For this reason, audit committee and professional accounting bodies have to cooperate to ensure that future and current Professional accountants are equip with the appropriate skills and competent to carry out a quality auditing exercise through induction training on their side.

Today companies make an assumption that to be ethical, they should invest in Corporate Social Responsibilities (CSR) project. Not only that, companies assume that CSR project will increase the confidence of investors on their financial reporting. But according to (Timbate & Park, 2018), companies conducting CSR is really unrelated to firm value. Even though companies

carry out good in CSR will have an improve quality of financial reporting, sometime the shareholders does not put value on CSR. Thus, companies have to find a better way to convince their shareholders. One of the ways mentioned in this study is to have integrated financial reporting not only financial reporting. But also report on non-financial information.

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